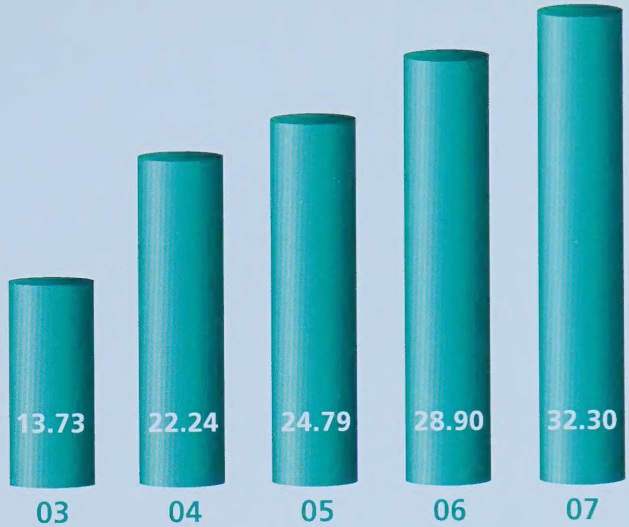
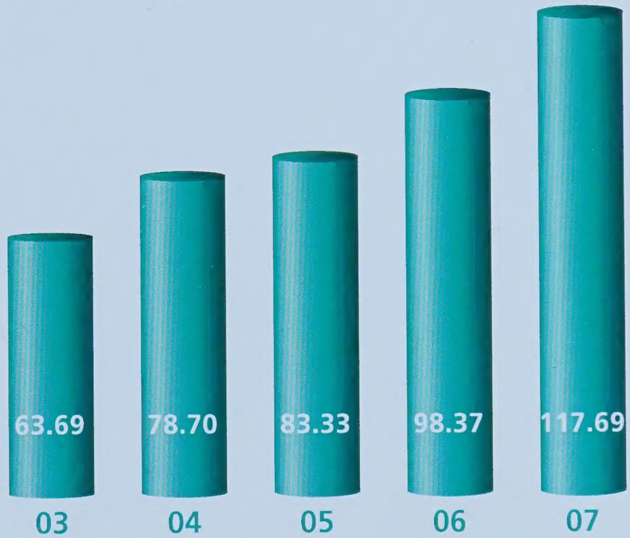
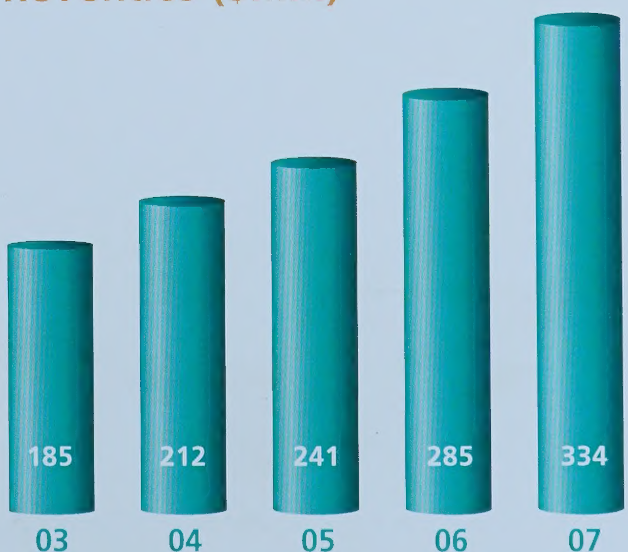


EBITDA ($mm)



Revenues ($mm)



Hydrovac Units

CONTINUED GROWTH

BADGER
INCOME FUND

2007 ANNUAL REPORT

Profile

Badger Income Fund is North America's largest provider of non-destructive excavating services. Badger's business is centered on exposing underground infrastructure to daylight, called daylighting, using a hydrovac pressurized water and vacuum system. Daylighting protects vital infrastructure from damage by heavy equipment during excavation. It also takes considerably less time and is less labour intensive than excavating infrastructure by hand.

In 2007, Badger achieved 20 percent revenue growth due to continued expansion in the Canadian marketplace and better than expected results in the U.S. Badger also built 56 additional hydrovacs, acquired 3 through an acquisition, retired 10 trucks from the fleet and delivered distributions of $1.26 per unit. Badger issued negligible amounts of equity during the year, avoiding dilution in unitholder value.

Badger is traded on the Toronto Stock Exchange under the symbol: BAD.UN.

Our Value Proposition

Safety

Badger's safety standards meet or exceed those set by many oil and natural gas producers and large utilities. Our crews have experience working safely around all types of utilities, including energized cables.

Productivity

The Badger hydrovac truck's design incorporates state-of-the-art technologies and safety features to achieve productivity above other types of vacuum excavators.

Efficiency and Cost Savings

The excavating efficiency of Badger hydrovac trucks surpasses that of trailer units, industrial cleaning units and sewer flushing trucks.

All-Season Versatility

Badger hydrovacs are designed to excavate frozen ground in extremely cold environments. Hydrovacs use a coiled heater to produce hot water for liquefying frozen ground. Other vital components are protected from the elements and heated.

Badger's Network

At 334 hydrovac units at year-end 2007, Badger has the largest fleet of hydrovacs operating in the United States and Canada. Badger's toll-free, central dispatch coordinates each excavation project for customers 24 hours a day, seven days a week.

Clean, Precise, Professional

Badger hydrovacs excavate quickly and leave a clean hole, which requires less restoration. Before work begins, Badger's managers develop an excavation plan for each job site.

Remote Excavating

Badger hydrovacs are built to operate in areas with limited access. Long water and vacuum hoses enable crews to work more than 400 feet from the truck.

Outsourcing

Outsourcing hydrovac projects is the most economical option for many customers. Badger hires and trains equipment operators and supplies hydrovacs for customers outsourcing their excavation projects.

Distributions per Unit ($)

Our Value for Investors

Returns

45 months of stable distributions.

Good unitholder returns over the past four years.

Organic Growth

Added 49 net hydrovac units.

Strong growth in the U.S. market.

Capital Management

A year-end long-term debt-to-trailing funds generated from operations ratio of 0.82:1.

Negligible amounts of equity issued in the past eight years.

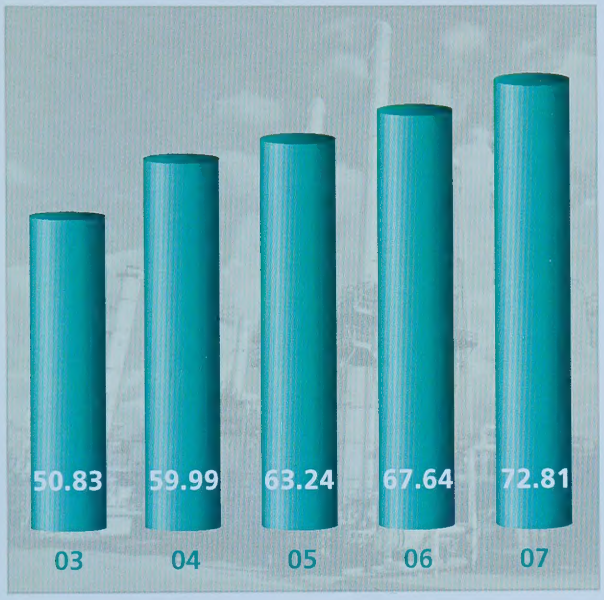
Contents

Highlights

($ thousands, except per unit and total units outstanding information)	**Year ended December 31, 2007**	Year ended December 31, 2006
Revenues	**117,688**	98,371
EBITDA [1]	**32,294**	28,895
Earnings before income taxes	**20,783**	19,832
Taxes		
Current	**818**	687
Future	**3,242**	2,648
Net earnings	**16,723**	16,497
Net earnings per unit – diluted	**1.55**	1.53
Funds generated from operations [2]	**31,818**	27,855
Funds generated from operations per unit – diluted	**2.96**	2.59
Maintenance capital expenditures [3]	**3,219**	3,170
Long-term debt repayments	**109**	109
Cash available for growth and distribution [4]	**29,013**	25,291
Cash distributions declared	**13,558**	13,246
Growth capital expenditures [3]	**12,758**	19,304
Total units outstanding	**10,761,668**	10,758,618

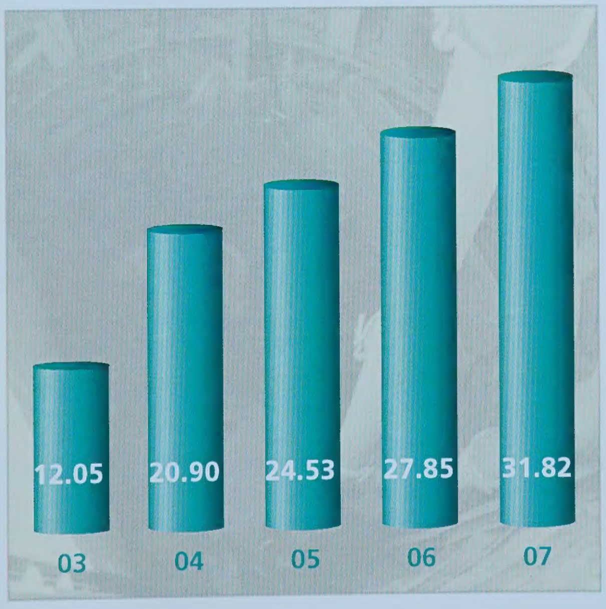
See definitions for (1), (2), (3), and (4) on page 11.

Canadian Daylighting Revenues ($mm)

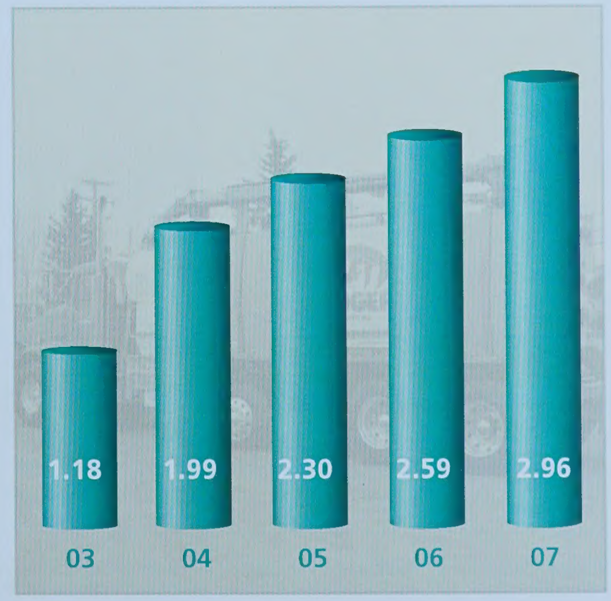


U.S. Daylighting Revenues ($mm)

Funds Generated from Operations ($mm)



Funds Generated from Operations per Unit – Diluted ($)



Fellow Unitholders,

We are pleased with the growth and results achieved in 2007 as well as in the longer-term organizational improvements and actions that we undertook over the past year which position Badger for continued growth.

Highlights of the year included:

- Strengthening of the organization to support current and future growth. We divided Western Canada operations into two groups and staffed the two appropriately. The two groups are corporate operations and Operating Partner operations. The additional resources will allow Badger to better support existing operations and find new opportunities in the region. The United States East organization also evolved in 2007. We added people in the administration office in Pittsboro, Indiana to handle the growth in our business and added several operational managers in locations with strong market potential. These investments are expected to pay off in 2008. We divided our United States West region into three areas with a regional manager in each. All of this is intended to continue to develop new markets for Badger services.

20%
Increase
in revenues from 2006 to 2007

- Badger increased its revenues by 20 percent in 2007. Our internal long-term goal is an average of 10-15 percent growth every year. Some years may be higher or lower but overall we anticipate achieving that objective.

- We increased our fleet size by 49 units to 334 units at year-end 2007 from 285 at the end of 2006. This 17 percent increase in fleet size provides the equipment necessary for growth in 2008. It should be noted that the strategy of purchasing extra chassis in late 2006 made this increase possible. Through this purchase, Badger was able to keep up the production of new Badger units, while deferring introduction of new diesel engine technology, the initial variant of which created problems for our manufacturing process.

- Badger experienced continued good growth in the Canadian marketplace with a 15 percent year-over-year increase in revenue. We are particularly pleased with our results in Western Canada given the slowdown in oil and natural gas activity in the region. Our Eastern Canadian region added coverage, customers and trucks in 2007, and the region also showed reasonable growth given tougher market conditions in 2007. Growth was not at the level of 2006 but met our expectations.

- United States operations grew by approximately 32 percent year-over-year in 2007. This growth was achieved through better market coverage and a robust oil and natural gas industry. We invested in five new corporate locations in the United States East region, which are expected to add revenue in 2008. Badger also expanded its market coverage in the United States West, which we are confident will add to future results.

- Badger acquired the operating assets and business of Benko Sewer Service on April 1, 2007. This acquisition improved our hydrovac service coverage in Southern Ontario, provided an additional service offering in that area and added a strong member to our organization.
- In Western Canada we began operating several corporate centres. These centres are key strategic areas for Badger and its future growth in the region.
- In order to ensure Badger's manufacturing facility has the capacity to keep up with the demand for new trucks, we will increase our painting capacity by 50 percent and also will reduce the amount of space we lease to third parties. When the above changes are made our plant capacity to produce trucks will increase to two per week.

2007 Goals & Results

In last year's annual report we outlined our plan and goals for 2007. Here is how we performed (the goal is stated first, followed by the results).

1 **Continue to expand our customer list and market coverage in the U.S.** Our revenue growth of 32 percent in the U.S. exceeded our expectations, and we expanded our geographical presence as discussed above.

2 **Continue growth in the Canadian business.** Our revenue growth of 15 percent in Canada met our expectations, and is noteworthy given the weakness in western Canada's oil and natural gas sector.

3 **Maintain or surpass a $25,000 per truck per month fleet average.** Our fleet average for 2007 was $29,300 per truck per month due to strong industry activity and a number of good projects. Revenue per truck is affected by the number of projects we are involved with. Utilization is higher on longer-lasting projects since the trucks are kept busy and generating revenue day after day.

4 **Continue to focus on core competencies and business processes that will help maintain or increase our competitive advantage.** This is a constant goal for Badger. The main actions we took in this regard in 2007 were to reorganize our United States administration office in Pittsboro, Indiana to handle the increased workload, to source an improved onboard truck and driver monitoring system that will be installed on all Badger units in the next few years, and to add an additional field audit to our safety program to ensure compliance with our operating procedures.

5 **Seek possible additions to the service we provide in selected locations and/or possible accretive acquisitions that have synergies with our core business.** We evaluated many opportunities in 2007. Most did not meet our criteria, and for those that did we were unable to negotiate a transaction. As outlined above we were able to make one regional acquisition, that of Benko Sewer Service.

2008 MARKET OUTLOOK

Badger divides the North American market into four areas: Western Canada, Eastern Canada, United States West and United States East. These areas are distinct in the type of industries they support and their market characteristics. These markets are also each at a different stage of business development for Badger.

Western Canada: Western Canada represents the most established hydrovac market in North America and the oil and natural gas sector is Badger's main market. Growth in this region in 2008 will depend on the number of major projects ongoing, Badger's ability to win work at these projects and the overall level of activity in the oil and natural gas sector. We expected the market to soften for Badger in 2007 but because we gained work at several major projects we were able to grow revenue. Early indicators are that the market will be reasonable in 2008. Our efforts will be directed to ensuring our customer service remains the best overall in the region.

Eastern Canada: The main business in this region centres on utilities and general construction. This region is currently experiencing a slowdown in

its manufacturing sector which will likely have a negative effect on the construction market. We forecast our growth to be at a moderate level of 10 percent in 2008.

United States West: The strength of the oil and natural gas industry is important to this region. Current activity levels are strong, and the forecast is fairly positive, which is good for Badger.

334
hydrovac units

This 17 percent increase in fleet size provides the equipment necessary for growth in 2008.

United States East: Badger's revenue is largely dependent on major regional projects. This causes fluctuations in revenue depending on the size and scope of projects going on at any time. We make every effort to continue working on these projects following their completion, such as participating in maintenance work. Our efforts in 2008 will concentrate on adding customers to our business and also adding locations in areas showing demand for our services.

2008 Goals

The majority of our goals in 2008 are similar to those in past years

1 **Continue to expand our customer list and market coverage in the U.S.** We made good progress in the U.S. last year as we added several locations in good potential market areas. Our plan for 2008 is to continue this program. It should be noted that new areas normally reduce overall utilization until they establish a good customer base. We will continue to try to expand in a manner that minimizes this negative impact.

2 **Continue growth in the Canadian business.** We have opportunities to increase our coverage, find new applications and add customers to continue our growth in Canada. As the market matures, these opportunities become fewer and more difficult to obtain.

3 **Maintain or surpass a $25,000 per truck per month fleet average.** This is our ongoing standard, because at $25,000 per truck Badger's business model is effective. Essentially, when our fleet as a whole performs above this level we build additional trucks for growth, and when it's below this level we may look at reducing the level of the build.

4 **Continue to focus on core competencies and business processes that will help maintain or increase our competitive advantage.** This is the same goal as in 2007 and it is a continuous goal for Badger.

5 **Seek additions to our service offering or acquisitions which make sense to our core business.** Badger has a good balance sheet with low debt levels, allowing the Fund to look at acquisitions that meet our criteria and make sense in the long term.

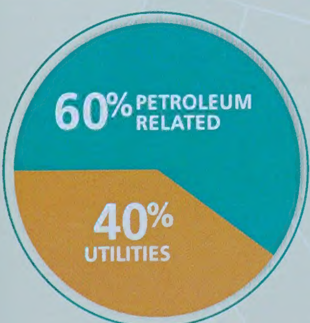
CONCLUSION

In 2007 we were able to provide a good level of growth, strengthen our organization for future growth and invest in new areas for market development. All in all, it was a satisfying year. Our debt, although higher than in 2006, remains at a conservative level, which provides the flexibility to act on growth opportunities or deal with fluctuating markets. With an increased fleet size and more operating locations Badger is positioned to continue to grow in 2008, given a reasonable economy and oil and natural gas industry. I would like to thank all our employees for their efforts in 2007 and also the Board of Trustees for their contribution.

On behalf of the Board of Trustees and management,

Tor Wilson
President, Chief Executive Officer
and Trustee

March 14, 2008



Diversified Customers

Badger serves different industries in each of its core operating regions. These industries include utilities, construction and the oil and natural gas sector.

North American Wide

Badger operates in four distinct regions: Western Canada, Eastern Canada, United States West and United States East. Each region has distinct market characteristics.

Pressurized Water

Hydrovac operators inject pressurized water into the ground using a handheld wand to safely break up soil surrounding underground infrastructure.

Strong Vacuum

As the saturated ground becomes liquefied it is simultaneously vacuumed from the excavation site through a debris hose and temporarily stored in a debris tank.

OVERVIEW

Badger Daylighting is North America's largest supplier of non-destructive excavating services. Badger is active in the Western and Eastern United States and in Western and Eastern Canada. Badger's high-performance hydrovac systems expose underground utilities and pipelines to daylight using pressurized water and a powerful vacuum to clear away soil and debris. Badger earned its spot at the forefront of the vacuum excavation industry by supplying advanced equipment, providing exceptional customer service and maintaining a solid safety record.

DAYLIGHTING IS THE SAFEST WAY TO EXCAVATE

Badger's hydrovac system virtually eliminates potential repair costs and lengthy delays associated with damaging utilities during excavation. Daylighting is recognized as the safest way to excavate frozen ground, as well as areas where utilities are spaced closely together or inaccurately located and marked on the surface.

BUSINESS MODEL

Badger's business model encompasses Badger Corporate and its Operating Partners, which are two distinct entities. Badger Corporate manufactures and maintains the hydrovacs, leads marketing efforts and provides administrative support to the Operating Partners across North America. The Operating Partners are responsible for delivering Badger's services and encouraging business development in their local markets. Badger Corporate is also responsible for invoicing customers and sharing service revenue with the Operating Partners under an agreed-upon formula. Badger Corporate also operates Badger hydrovac units providing services directly to the customer in certain locations where it makes sense to do so from a business perspective.

CORE COMPETENCIES

Badger's hydrovacs and expertise are competitive advantages that create value for its customers. These include:

Promoting Daylighting Innovation

Badger continues to improve the safety and cost-efficiency of delivering its services. The Fund shares any process enhancements or technological innovations in its daylighting business with its Operating Partners and customers.

Technology and Truck Development

Badger's in-house design capabilities and sustained investment in new technologies will ensure that its hydrovacs continue to set the performance standard for the industry.

Distribution and Market Development

Badger is sustaining its growth by tailoring marketing initiatives to the unique characteristics of its local markets and service channels across North America.

Fleet Management

Badger's Fleet Management Program schedules regular maintenance and overhauls for each hydrovac. This program ensures that the fleet – which grew by 49 units in 2007 to 334 units at year-end – is reliable and operating at optimum efficiency at each job site.

DAYLIGHTING/ POTHOLING

- Visual confirmation of buried lines
- Service and splice pits
- Directional drilling test holes
- Cathodic anode installations
- Pipeline and utility crossings
- Subsurface Utility Engineering (S.U.E.)

SLOT TRENCHING

- Pipeline tie-ins
- Investigative slot trenching
- Installation slot trenching
- Drain tile trenching
- Line fault repairs

PITS

- Maintenance pits
- Installation service pits

POLE/PILING HOLES

- Utility poles, traffic signals, light standards and sign posts
- Pole removals and replacements
- End-bearing piles
- Pilot holes for friction piles
- Spread footing piles
- Well monitor installations

SHORING

- Shoring shields and cages
- Minimal ground disturbance
- Maintains ground integrity
- Installation in limited access sites
- Prevents sloughing and cave-ins
- Lower restorations costs
- Safe access to buried infrastructure

DEBRIS REMOVAL/ CLEANOUTS

- Road and box culvert cleanouts
- Pipe-rammed casing cleanouts
- Material removal from inside structures and buildings

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the consolidated financial statements of Badger Income Fund (the "Fund" or "Badger") and related notes and material contained in other parts of this annual report. Readers should also refer to the Annual Information Form for the year ended December 31, 2007. Additional information relating to Badger, including the Fund's Annual Information Form, may be found on SEDAR at www.sedar.com.

This MD&A has been prepared taking into consideration information available to March 14, 2008.

FORWARD-LOOKING STATEMENTS

Certain statements contained in the annual report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or Badger's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or events to differ materially from those anticipated in such forward-looking statements. Other factors include, but are not limited to: the future tax treatment of income trusts; supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition; and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual report should not be unduly relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Financial Highlights

($ thousands, except per unit and total units outstanding information)	**Three months ended December 31, 2007**	Three months ended December 31, 2006	**Year ended December 31, 2007**	Year ended December 31, 2006
Revenues	**33,356**	25,622	**117,688**	98,371
EBITDA [(1)]	**8,901**	7,307	**32,294**	28,895
Earnings before income taxes	**5,762**	4,845	**20,783**	19,832
Taxes				
Current	**199**	183	**818**	687
Future	**(254)**	3	**3,242**	2,648
Net earnings	**5,817**	4,659	**16,723**	16,497
Net earnings per unit – diluted	**0.54**	0.43	**1.55**	1.53
Funds generated from operations [(2)]	**8,506**	6,820	**31,818**	27,855
Funds generated from operations per unit – diluted	**0.79**	0.63	**2.96**	2.59
Maintenance capital expenditures [(3)]	**964**	–	**3,219**	3,170
Long-term debt repayments	**27**	27	**109**	109
Cash available for growth and distribution [(4)]	**7,777**	6,794	**29,013**	25,291
Cash distributions declared	**3,390**	3,389	**13,558**	13,246
Growth capital expenditures [(3)]	**5,573**	8,650	**12,758**	19,304
Total units outstanding	**10,761,668**	10,758,618	**10,761,668**	10,758,618

The following financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures as presented by other funds or entities:

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a measure of the Fund's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Fund's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings as gross margin, less selling, general and administrative costs and foreign exchange loss (gain).

(2) Funds generated from operations is used to assist management and investors in analyzing operating performance and leverage. It is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds generated from operations are calculated from the Consolidated Statements of Cash Flows and is defined as cash provided by operating activities before changes in non-cash working capital.

(3) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred to enhance the operational life of a daylighting unit This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the three-month period ended December 31, 2007 Badger added 14 units to the fleet and removed three from service. As a result, 11 of the units added during the three months ended December 31, 2007 represent growth capital expenditures, while three of the units represent maintenance capital expenditures. During the year ended December 31, 2007 Badger added 59 units to the fleet, of which 10 have been reflected as maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four-and-a-half years. Growth capital expenditures exclude acquisitions made during the period

(4) Cash available for growth and distribution is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount which is available for distribution to unitholders. It is defined as funds generated from operations, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

OVERVIEW

Highlights for the year are as follows:

- The Fund generated improved operating and financial results in the year ended December 31, 2007 over the year ended December 31, 2006. Revenues increased to $117.7 million in 2007 from $98.4 million in 2006, while EBITDA increased to $32.3 million in 2007 from $28.9 million in 2006.

- EBITDA margins decreased from 29 percent in 2006 to 27 percent in 2007. During the year Badger added personnel in several locations. These investments are expected to pay off in 2008.

- Cash available for growth and distributions increased by 15 percent to $29.0 million in 2007 from $25.3 million in 2006.

- Badger's long-term debt increased to $26.3 million at December 31, 2007 from $8.6 million at December 31, 2006 due to the acquisition of the operating assets and business of Benko Sewer Service, the acquisition of the service rights and tangible assets from certain of its Canadian Operating Partners and the financing of the 2007 capital expenditure program.

- The Fund increased its extendable, revolving credit facility from $20 million to $30 million as of June 2007, which provides added financial capacity to assist in financing Badger's growth capital expenditure program.

- The Fund added 59 hydrovac units in 2007 and removed 10 from service, exiting the year with 334 hydrovac units. Of the total, 216 units are operating in Canada and 118 in the United States. The growth in hydrovac units was financed from cash generated from operations and existing credit facilities.

- On October 31, 2006 the federal Minister of Finance announced a new tax plan that will affect the future level of taxation of income trusts and corporations. This tax plan was substantively enacted in June 2007. One element of the plan is a tax on non-capital distributions from publicly-traded income trusts, which would make their income tax treatment more like that of corporations. For existing publicly-traded income trusts, the federal government put in place a four-year transitional delay in implementing the new rules, which will take effect in the 2011 taxation year. The application of this tax plan would reduce the tax efficiency of publicly-traded income trusts such as Badger. The new tax measures will require in-depth review, examination and assessment, which Badger has commenced.

Selected Annual Financial Information

	Year ended December 31		
	2007	2006	2005
Revenues ($)	**117,687,718**	98,370,896	83,331,679
Net earnings ($)	**16,722,845**	16,496,455	14,780,994
Net earnings per unit – basic ($)	**1.55**	1.53	1.39
Net earnings per unit – diluted ($)	**1.55**	1.53	1.38
Total assets ($)	**110,798,162**	90,192,248	74,551,335
Total long-term debt ($)[1]	**26,254,010**	8,625,052	1,114,843
Distributions declared ($)	**13,558,421**	13,246,474	11,165,792

(1) Includes the current portion of long-term debt

BUSINESS ACQUISITIONS

During the year Badger acquired the service rights and tangible assets including land and buildings along with certain other equipment from certain of its Canadian Operating Partners for approximately $5.3 million. As a result of these acquisitions Badger will be providing the hydrovac services directly to its customers in these areas rather than through an agent. Badger previously indicated it will operate corporate locations in certain geographical areas where it makes sense for market, development or other business reasons.

Effective April 1, 2007 Badger acquired all of the operating assets and business of Benko Sewer Service, a well-managed Ontario-based hydrovac excavation and sewer maintenance provider. This acquisition provides Badger with more complete hydrovac coverage in the southern Ontario market, an additional service offering to customers in that region and a strong addition to Badger's management team. The purchase price of $4.1 million was settled with a cash payment. The tangible assets acquired included three hydrovac units, four sewer maintenance vehicles, three camera units and other equipment.

OVERALL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2007 COMPARED TO THE YEAR ENDED DECEMBER 31, 2006

Results of Operations

Revenues

Revenues were $117.7 million for the year ended December 31, 2007 compared to $98.4 million for the year ended December 31, 2006. The increase is attributable to the following:

- Canadian revenues increased by 15 percent from $68.9 million in 2006 to $78.9 million in 2007. Western Canada revenue increased by 9 percent due to providing services on some major projects along with a general increase in activity. Eastern Canada revenue, excluding the added revenue from the Benko acquisition, increased by 10 percent year-over-year due to improved territorial coverage and customer development.

- United States revenues increased by 32 percent to $38.7 million in 2007 from $29.4 million in 2006. Revenue growth reflects the Fund's continued focus on certain geographical areas and market segments, which resulted in a growing customer base and increased demand for hydrovac services. The other major contributing factor was the increased activity related to oil field service in the United States. Oil field service-related revenue in the United States accounted for approximately 57 percent of the Fund's United States hydrovac revenues in 2007.

Badger's average revenue per truck per month for 2007 was $29,300, which is a modest decrease from the $29,600 generated during 2006. The Badger business model works well with an overall fleet average of $25,000 per truck per month.

Included in revenues is $1.8 million of truck placement and franchise fees for 2007, which is the same amount as for 2006.

Direct Costs

Direct costs were $74.9 million in 2007, an increase of $12.9 million from the $62.0 million recorded in 2006. This is consistent with the increase in revenues.

Gross Margin

Gross margin for 2007 was 36.4 percent, which is similar to 2006.

Amortization

Amortization was $10.4 million in 2007 or $1.8 million higher than the $8.6 million in 2006. The increase reflects the larger number of hydrovac units in the fleet. Included in this figure is approximately $147,000 related to amortization of the intangible assets acquired with Benko Sewer Service.

Interest Expense

Interest expense was $1.2 million in 2007 versus $0.4 million in 2006. The higher interest expense is attributable to maintaining a higher balance of debt throughout 2007 than in 2006. The increased debt was used to fund growth capital expenditures and business acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $2.1 million higher at $9.7 million in 2007 compared to $7.6 million in 2006. As a percentage of revenues, selling, general and administrative expenses were 8.2 percent in 2007 versus 7.7 percent in 2006. Overall the increased expenses are due to the following:

- Badger hired additional personnel to support the growth of the business;
- Badger increased compensation in order to retain high-quality personnel in a competitive labour environment;
- Non-cash compensation expense was $662,000 versus $148,000 in 2006;
- The Fund incurred additional costs due to the acquisition of the service rights from certain of its Canadian Operating Partners as well as added costs associated with Benko Sewer Service;
- Higher professional fees associated with the Fund's regulatory compliance activities; and,
- Overall increase in general office costs.

Badger's United States selling, general and administrative expenses increased by $0.9 million in 2007 over 2006 mainly due to the staffing of five additional corporate locations in the Eastern United States region. The investment is expected to begin paying off in 2008.

Selling, general and administrative expenses include salaries and benefits for office, field, safety and sales staff, as well as rent, utilities, and communications. These expenses also include costs to maintain the Fund's public listing and professional fees.

Foreign Exchange Loss (Gain)

The Fund incurred a foreign exchange loss for fiscal 2007 compared to a gain in 2006, due to the United States dollar weakening against the Canadian dollar during 2007 and an overall increase in the Fund's United States operations, which resulted in an increase in the Fund's net monetary assets that are denominated in United States dollars.

Income Taxes

The effective tax rate for 2007 was 20 percent versus 17 percent for 2006.

With the June 2007 substantive enactment of Bill C-52, a new 31.5 percent tax will be applied to distributions from Canadian public trusts starting in 2011. As a result, during 2007 Badger recorded an additional $1.4 million in future income tax expense and a corresponding future income tax liability related to the difference between the accounting and tax basis of the Fund's assets. Prior to this legislation, Badger's future income taxes reflected only those temporary differences in the Fund's subsidiaries. While net earnings for 2007 were reduced by this future tax adjustment, there was no impact on cash flow provided by operating activities or on cash available for growth capital expenditures and distribution.

Offsetting the impact of the above was a decrease in future income taxes of $1.1 million due to the reduction in federal income tax rates from the existing rate of 22.12 percent for 2007 to 15 percent for 2012.

The minimal effective tax rate overall is due to the trust structure, which results in tax-deductible distributions being made to unitholders.

Liquidity

Funds generated from operations increased to $31.8 million in 2007 from $27.9 million in 2006 due to stronger Canadian and United States activity levels. The Fund uses its cash to make distributions to unitholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Fund had working capital of $19.7 million at December 31, 2007 compared to $9.4 million at December 31, 2006. Good levels of cash flow from operations allowed Badger to build new daylighting units while maintaining a healthy working capital position.

The following table outlines the cash available to fund growth and pay distributions to unitholders in 2007 compared to 2006:

	Year ended December 31, 2007 $	Year ended December 31, 2006 $
Cash provided by operating activities	**24,432,856**	27,393,449
Add (deduct): net change in non-cash working capital	**7,384,823**	461,313
Funds generated from operations	**31,817,679**	27,854,762
Add: proceeds on disposal of property, plant and equipment	**523,122**	714,615
Deduct: required repayments of long-term debt	**(108,768)**	(108,702)
Deduct: maintenance capital expenditures	**(3,219,330)**	(3,169,728)
Cash available for growth capital expenditures and distributions	**29,012,703**	25,290,947
Growth capital expenditures	**12,758,244**	19,303,939
Cash distributions declared	**13,558,421**	13,246,474

The Fund makes regular monthly cash distributions to unitholders. These cash distributions may be reduced, increased or suspended entirely by the trustees depending on the operations of Badger and the performance of its assets. The actual cash flow available for distribution to holders of Fund units is a function of numerous factors, including the Fund's financial performance; debt covenants and obligations; working capital requirements; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and number of units outstanding. It may also be impacted by the future tax treatment of income trusts.

The majority of the cash provided by operating activities was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders. As outlined in the above table, cash not distributed to unitholders was used to finance growth capital expenditures and acquisitions.

If maintenance capital expenditures levels increase in future periods, the Fund's cash available for growth capital expenditures and distributions will be negatively affected. Due to Badger's growth rate in recent years, the majority of the hydrovac units are relatively new, with an average age of approximately four-and-a-half years. As a result, Badger is currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the amortization expense reported in the year. Badger expects continued increases in cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund the maintenance capital expenditures in the future.

Badger is restricted from declaring distributions and distributing cash if it is in breach of the covenants under its credit facilities. As at the date of this MD&A the Fund is in material compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

Currently the Fund has a $30 million extendable, revolving facility to fund working capital requirements and finance capital expenditures, of which $23.7 million was used at December 31, 2007. The Fund will maintain an appropriate mix of flexible debt and equity to finance its maintenance capital expenditures and growth initiatives.

Capital Resources

Investing

In 2007 the Fund spent $16.0 million on property, plant and equipment compared to $22.3 million in 2006. Included in 2006 spending is $3.7 million worth of cabs and chassis acquired in December 2006 which were used to manufacture hydrovac units in 2007. During 2007, the Fund added 56 new hydrovac units (excluding the three acquired on the acquisition of Benko Sewer Service) compared to 54 new hydrovac units built in 2006. The 2007 capital expenditures figure includes maintenance capital expenditures of $3.2 million. Generally speaking, maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which was 10 for 2007, plus any other capital expenditures required to maintain the existing business.

During 2007 Badger also spent $9.4 million in cash on acquisitions as outlined above under the heading Business Acquisitions.

Financing

On June 29, 2007 Badger renewed its extendable, revolving credit facility and increased the amount of the facility from $20 million to $30 million. The facility has been used and will continue to be used to assist in financing Badger's capital expenditure program and general corporate activities. The facility has no required principal repayments. It expires on June 30, 2008 and is renewable at Badger's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus 1.00 percent plus 0 to 200 basis points depending on Badger's ratio of funded-debt-to-EBITDA.

During December 2007 Badger obtained mortgage financing in the amount of $1.65 million for certain property it acquired through the acquisition of service rights and tangible assets from one of its Canadian Operating Partners. The amount is repayable in monthly principal payments of $9,167 plus interest until December 2022 and bears interest at bank prime plus 0.75 percent.

During 2007 Badger repaid $0.1 million of long-term debt pursuant to regularly scheduled repayments. As a result of these principal payments and the proceeds received from the revolving credit facility and mortgage financing, the Fund's long-term debt, including the current portion, was $26.3 million at year-end 2007 versus $8.6 million at year-end 2006. The increased debt was the result of financing the various 2007 acquisitions as well as the capital expenditure program.

At December 31, 2007 the Fund had a long-term debt-to-equity ratio of 0.45:1 and a long-term debt-to-trailing-funds-generated-from-operations ratio of 0.82:1. Management believes that the Fund's healthy balance sheet and unutilized borrowing capacity, combined with funds generated from operations, will provide sufficient capital to fund ongoing operations, make distributions to unitholders, finance future capital expenditures and execute its strategic plan for the foreseeable future.

Contractual Obligations and Committed Capital Investment

The Fund intends to meet its contractual obligations through funds generated by operating activities. The Fund's contractual obligations for the next five years relating to repayment of long-term debt (assuming the extendable revolving credit facility is not renewed on June 30, 2008) and lease payments for shop and office premises are as follows:

($000s)	Total	2008	2009-2010	2011-2012	Thereafter
Long-term debt	26,254	219	24,144	438	1,453
Shop and office leases	862	374	391	97	–
Total contractual obligations	27,116	593	24,535	535	1,453

In addition to the contractual obligations above, at year-end 2007 the Fund had committed to certain capital expenditures totalling approximately $4.7 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations, as well as alternative sources of financing as required. There are no set terms for remitting payment for these financial obligations. 17

UNITHOLDERS' CAPITAL

Unitholders' capital increased by $50,000 due to the issue of 3,050 units to the non-management trustees as partial payment for 2007 trustee fees.

Units outstanding at December 31, 2007 were 10,761,668. There was no change to the balance as of March 14, 2008.

OFF-BALANCE-SHEET ARRANGEMENTS

At December 31, 2007 and 2006, the Fund had no off-balance-sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Shea Nerland Calnan LLP provides legal services to Badger at market rates. David Calnan, a Trustee and the Corporate Secretary of the Fund, is a partner in the law firm of Shea Nerland Calnan LLP and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2007 was $219,000 compared to $240,000 in 2006.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter ended							
	2007				2006			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues ($)	**33,356,010**	**31,741,950**	**25,015,707**	**27,574,051**	25,621,658	25,324,030	21,696,318	25,728,890
Net earnings ($)	**5,816,949**	**5,136,223**	**1,539,755**	**4,229,918**	4,659,784	3,974,958	2,841,459	5,020,254
Net earnings per unit – basic ($)	**0.54**	**0.48**	**0.14**	**0.39**	0.43	0.37	0.26	0.47
Net earnings per unit – diluted ($)	**0.54**	**0.48**	**0.14**	**0.39**	0.43	0.37	0.26	0.47

FOURTH QUARTER HIGHLIGHTS

- As a result of increased activity in Canada and the United States, revenue increased to $33.3 million in the three months ended December 31, 2007 from $25.6 million in the three months ended December 31, 2006. Canadian revenues increased by 33 percent due to a general increase in business in most areas. Badger's United States revenue increased to $10.6 million from $8.5 million quarter-over-quarter due to increased activity related to oil field services and performing services on some major projects.

- Average revenue per truck per month was $30,900 in the fourth quarter of 2007 compared to $29,000 per month for the same period in 2006.

- With the increase in revenues, earnings before income taxes increased by 19 percent for the fourth quarter of 2007 over the same period in 2006.

- The Fund added 14 hydrovac units to the fleet and removed three from service.

NEW ACCOUNTING PRONOUNCEMENTS

New CICA Handbook Sections have been issued which will require additional disclosure in the Fund's consolidated financial statements commencing January 1, 2008. Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Fund's objectives, policies and processes for managing capital. Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation" will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. Handbook section 3031 "Inventories", which prescribes the recognition, measurement, disclosure and presentation issues related to inventories, will become effective January 1, 2008. The Fund believes the adoption of these standards will not have a material impact on the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgements. An accounting estimate is considered critical only if it requires the Fund to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if different estimates the Fund could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

Amortization of the Hydrovac Units

The accounting estimate that has the greatest effect on the Fund's financial results is the amortization of the hydrovac units. Amortization of the hydrovac units is carried out on the basis of their estimated useful lives. The Fund currently amortizes the hydrovac units over 10 years based on current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectation. A change in the remaining life of the hydrovac units or the expected residual value will affect the amortization rate used to amortize the hydrovac units and thus affect amortization expense as reported in the Fund's statements of earnings and comprehensive income. These changes are reported prospectively when they occur.

Tax Pools and Their Recoverability

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Fund may be able to use could be materially different in the future.

Intangible Assets

Intangible assets consist of service rights acquired from Operating Partners, customer relationships, trade name and non-compete agreements. The initial valuation of intangibles at the closing date of any acquisition requires judgement and estimates by management with respect to identification, valuation and determining the expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit or not amortized if it is determined the intangible asset has an indefinite life. Intangible assets are reviewed annually with respect to their useful lives or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of the intangible asset exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of the intangible asset.

Goodwill

Goodwill is the amount that results when the cost of acquired assets exceeds their fair values at the date of acquisition. Goodwill is recorded at cost, not amortized and tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

Impairment of Long-lived Assets

The carrying value of long-lived assets, which include property, plant and equipment and intangible assets, is assessed for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Collectibility of Accounts Receivable

The Fund estimates the collectibility of its accounts receivable. The Fund continually reviews its accounts receivable balances and makes an allowance when a receivable is deemed uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate.

Unit-based Compensation

Compensation expense associated with unit options at grant date is an estimate based on various assumptions such as volatility, annual distribution yield, risk-free interest rate and expected life. Badger uses the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

FINANCIAL AND OTHER INSTRUMENTS

Fair Values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable and distributions payable approximate the fair value of these financial instruments due to their short-term maturities. The carrying value of the long-term debt approximates fair value due to its floating interest rates.

Foreign Currency Risk

In the normal course of operations the Fund is exposed to movements in the United States dollar exchange rate relative to the Canadian dollar. Badger has United States operations and purchases certain items in United States dollars. Badger does not utilize hedging instruments to mitigate this risk.

Interest-rate Risk

The floating interest-rate profile of Badger's long-term debt exposes Badger to interest-rate risk. Badger does not use hedging instruments to mitigate this risk.

Credit Risk

A substantial portion of Badger's accounts receivable is with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Fund's credit risk from customers is minimized by Badger's broad customer base and the diverse industries it serves.

DISCLOSURE CONTROLS AND PROCEDURES RELATED TO FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the President and Chief Executive Officer (CEO) and the Vice President Finance and Chief Financial Officer (CFO). This allows appropriate decisions to be made regarding public disclosure. As of December 31, 2007 both the CEO and the CFO have evaluated the effectiveness of Badger's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators. They have concluded that such disclosure controls and procedures are effective.

BUSINESS RISKS

(Reference is also made to Badger's Annual Information Form.)

Reliance on the Oil and Natural Gas Sector

The oil and natural gas sector accounts for a significant portion of the Fund's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers and is also affected by certain adverse weather conditions. These spending decisions are based on several factors including, but not limited to, hydrocarbon prices; production levels of current reserves; and access to capital – all of which can vary greatly. To minimize the impact of the oil and natural gas industry cycles, the Fund also focuses on generating revenue from the utility and general contracting market segments.

Competition

The Fund operates in a highly competitive environment for hydrovac services in Canada. In order to remain the leading provider of hydrovac services in this region, Badger continually enhances its safety and operational procedures to ensure that they meet or exceed customer expectations. Badger also has the in-house capabilities to continuously improve its daylighting units so that they remain the most productive and efficient hydrovacs in the business. There can be no assurance that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety and other factors.

United States Operations

Badger also faces risks associated with doing business in the United States. The Fund has made a significant investment in the United States to develop the hydrovac market. The growth rate of the United States market is very hard to predict.

Safety

Safety is one of the Fund's primary concerns. Badger has implemented programs to ensure its operations meet or exceed current hydrovac safety standards. The Fund also employs safety advisors in each region who are responsible for maintaining and developing the Fund's safety policies. In addition, these regional safety advisors monitor the Fund's operations to ensure they are operating in compliance with such policies.

Amortization of Daylighting Units

The Fund currently amortizes the hydrovac units over 10 years, a policy that is based on its current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectation.

Dependence on Key Personnel

Today, Badger has a strong, stable employee base. Badger relies on its ability and the ability of its agents/franchisees to attract and retain key personnel necessary to maintain and grow its business. Any loss of services of key personnel could have a material adverse effect on the business and operations of the Fund. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Reliance on Key Suppliers

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality. For example, in Western Canada Badger's results may be negatively affected if there is an extended spring break-up period since oil and natural gas industry sites may not be accessible during such periods. In Eastern Canada, Badger has in the past experienced enhanced use of its equipment during cold winters, thus improving the results of its operations during such times. The Fund may then experience a slow period during spring thaw.

In the Western United States, Badger has from time-to-time been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the winter mating seasons of certain mammals and birds. This has had a negative effect on Badger's results of operations. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's results of operations.

Fluctuations in the Economy and Political Landscape

Operations could be adversely affected by a general economic downturn, changes in the political landscape or limitations on spending.

Compliance with Government Regulations

While Badger believes it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's business will be able to continue to comply with all applicable standards and regulations.

Access to Additional Financing

Badger may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance additional financing will be available to Badger when needed or on terms acceptable to Badger. Badger's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Fund's growth and may have a material adverse effect upon the Fund.

Self-Insurance

Due to the magnitude of insurance premiums, the Fund decided to self-insure against any physical damage it could incur on the Canadian hydrovac units. This decision will be re-evaluated periodically as circumstances change. The United States hydrovac units continue to have insurance purchased by Badger.

OUTLOOK

Badger increased its hydrovac fleet by 17 percent during 2007, from 285 units at the end of 2006 to 334 units at the end of 2007. Given reasonable market conditions these additional units should add significant revenue to 2008 results. In 2007 Badger strengthened its management team in all regions, which will help the Fund to continue its growth. Badger is adding production capacity at its Red Deer, Alberta facility, which is expected to be completed by mid-year 2008 and will allow Badger to build more units as market pull demands. With more locations in the United States the Fund believes it will increase market penetration in this important market.

Management's Responsibility for Financial Reporting

The consolidated financial statements included in this annual report of Badger Income Fund for the year ended December 31, 2007 are the responsibility of the management of the Fund and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with the Canadian generally accepted accounting principles, with financial information presented elsewhere in this annual report consistent with that in the financial statements.

Management has developed and maintains a comprehensive system of internal controls which provides assurance that transactions are recorded and executed in compliance with legislation and required authority, to ensure assets are properly safeguarded and that reliable financial records are maintained.

The independent chartered accounting firm of Ernst & Young LLP has been appointed by the unitholders of the Fund to examine the financial statements, and has expressed an opinion thereon. Their auditors' report is included with the financial statements. The Board of Directors has established an Audit Committee to review the financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the financial statements.

Tor Wilson
President and CEO

Greg Kelly, CA
Vice President Finance and CFO

March 14, 2008

Auditors' Report

TO THE UNITHOLDERS OF BADGER INCOME FUND

We have audited the consolidated balance sheets of Badger Income Fund as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 14, 2008

Chartered Accountants

Consolidated Balance Sheets

As at December 31	2007 $	2006 $
ASSETS [note 6]		
Current		
Cash	**1,477,078**	1,319,912
Accounts receivable	**28,318,106**	22,873,841
Inventories	**1,690,133**	1,399,661
Prepaid expenses	**1,031,513**	679,675
	32,516,830	26,273,089
Property, plant and equipment [note 4]	**71,672,820**	62,367,823
Intangible assets [note 5]	**4,987,512**	1,551,336
Goodwill	**1,621,000**	–
	110,798,162	90,192,248
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**11,269,139**	14,951,723
Income taxes payable	**212,540**	671,544
Distributions payable	**1,129,975**	1,129,655
Current portion of long-term debt [note 6]	**218,768**	108,768
	12,830,422	16,861,690
Long-term debt [note 6]	**26,035,242**	8,516,284
Future income taxes [note 9]	**13,500,936**	10,259,536
	52,366,600	35,637,510
Commitments and contingencies [note 13]		
Unitholders' equity		
Unitholders' capital [note 7]	**43,538,255**	43,488,255
Contributed surplus [note 7]	**1,636,000**	973,600
Retained earnings	**13,257,307**	10,092,883
	58,431,562	54,554,738
	110,798,162	90,192,248

See accompanying notes.

On behalf of the Board:

Glen D. Roane
Director

David M. Calnan
Director

Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

Years ended December 31	2007 $	2006 $
Revenues	**117,687,718**	98,370,896
Direct costs	**74,894,917**	61,987,817
Gross margin	**42,792,801**	36,383,079
Expenses		
Amortization	**10,427,356**	8,636,268
Gain on sale of property, plant and equipment	**(94,402)**	(5,580)
Interest		
Long-term	**1,178,295**	68,525
Current	**–**	363,882
Selling, general and administrative [notes 7 and 14]	**9,690,948**	7,613,620
Foreign exchange loss (gain)	**808,080**	(126,004)
	22,010,277	16,550,711
Earnings before income taxes	**20,782,524**	19,832,368
Income taxes [note 9]		
Current	**818,279**	687,480
Future	**3,241,400**	2,648,433
	4,059,679	3,335,913
Net earnings and comprehensive income for the year	**16,722,845**	16,496,455
Retained earnings, beginning of year	**10,092,883**	6,842,902
Cash distributions [note 10]	**(13,558,421)**	(13,246,474)
Retained earnings, end of year	**13,257,307**	10,092,883
Net earnings per unit [note 8]		
Basic	**1.55**	1.53
Diluted	**1.55**	1.53

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31	2007 $	2006 $
OPERATING ACTIVITIES		
Net earnings and comprehensive income for the year	**16,722,845**	16,496,455
Add (deduct) items not involving cash		
Amortization	**10,427,356**	8,636,268
Future income taxes	**3,241,400**	2,648,433
Unit-based compensation	**712,400**	205,190
Foreign exchange loss (gain)	**808,080**	(126,004)
Gain on sale of property, plant and equipment	**(94,402)**	(5,580)
	31,817,679	27,854,762
Net change in non-cash working capital relating to operating activities	**(7,384,823)**	(461,313)
	24,432,856	27,393,449
FINANCING ACTIVITES		
Proceeds from units issued	**–**	59
Proceeds from long-term debt	**17,737,726**	7,618,911
Repayment of long-term debt	**(108,768)**	(108,702)
Distributions to unitholders	**(13,558,101)**	(13,169,223)
Decrease in bank indebtedness	**–**	(3,497,348)
	4,070,857	(9,156,303)
INVESTING ACTIVITIES		
Purchase of Benko Sewer Service [note 3]	**(4,101,000)**	–
Purchase of service rights [note 3]	**(5,139,675)**	–
Purchase of property, plant and equipment	**(15,977,574)**	(22,323,667)
Purchase of intangible assets	**–**	(150,000)
Proceeds on disposal of property, plant and equipment	**523,122**	714,615
Net change in non-cash working capital relating to investing activities	**(3,651,420)**	3,651,420
	(28,346,547)	(18,107,632)
Increase in cash during the year	**157,166**	129,514
Cash, beginning of year	**1,319,912**	1,190,398
Cash, end of year	**1,477,078**	1,319,912
Interest paid	**1,199,319**	411,383
Income taxes paid (received)	**1,271,334**	(421,349)

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

1. NATURE OF BUSINESS

Badger Income Fund [the "Fund"] is a Canadian income trust which was established by a Deed of Trust dated February 17, 2004. The Fund, through its wholly-owned subsidiaries, provides non-destructive excavating services to the petroleum and utility industries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Fund and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being defined to include laid-down cost for materials and actual cost for direct labour on a weighted average basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided on a straight-line basis to recognize the cost less estimated salvage value of the assets over their estimated useful lives as follows:

Land improvements	10%
Buildings	5%
Shoring equipment	10%
Small tools	10%
Shop and office equipment	10%
Trucks and trailers	10% – 15%
Leasehold improvements	20%
Computers	25%

Amortization of equipment under construction is not recorded until such time as the construction is completed and the assets have been put into use.

Although management believes its estimates of the useful lives of the Fund's property, plant and equipment are reasonable, it is possible that another estimate may be made or that management's estimate may change in the future, which could result in changes to the rates. Management bases its estimate of the useful life of equipment on expected utilization, technological change and effectiveness of maintenance programs.

Impairment of Long-lived Assets

All non-monetary long-lived assets with finite useful lives are subject to review for asset impairment. Impairment is recognized if the carrying value of the asset exceeds the sum of the undiscounted cash flows expected to result from that asset. A long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Intangible Assets

Intangible assets represent service rights acquired, customer relationships, trade name and a non-compete agreement. Intangible assets are amortized on a straight-line basis over five years, with the exception of those intangible assets which have an indefinite life. Intangible assets are tested for impairment on an annual basis or more frequently if events or circumstances indicate the asset may be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized as an expense when the carrying amount of the asset exceeds its fair value.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed. Goodwill is not subject to amortization, but is tested for impairment on an annual basis, or more frequently if events or circumstances indicate the asset may be impaired. The impairment test for goodwill includes the application of a fair value test, with an impairment loss recognized as an expense where the carrying amount of the asset exceeds its fair value. Any goodwill impairment will be recognized as an expense in the period the impairment is determined.

Income Taxes

The Fund is a mutual fund trust for purposes of the Income Tax Act (Canada), and is only subject to statutory income taxes on taxable income not distributed to the unitholders.

The consolidated subsidiaries of the Fund are subject to certain capital taxes and corporate income taxes and follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Fund's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

On June 22, 2007, the Government of Canada enacted a new tax on distributions from specified investment flow-through ["SIFT"] entities. This enactment has triggered the recognition of future income tax assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax balances in the Fund has been reflected as a future income tax expense in 2007.

Revenue Recognition

The Fund recognizes revenue from daylighting services when the services are provided. Truck placement fees are recognized when the truck is delivered.

Net Earnings per Unit

Basic net earnings per unit was calculated on the basis of the weighted average number of units outstanding for the year.

Diluted net earnings per unit is calculated by adding the weighted average number of units outstanding during the year to the additional units that would have been outstanding if potentially dilutive units had been issued, using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase units at the average market price.

Long-term Incentive Plan

The Fund has established a Long Term Incentive Plan [the "Incentive Plan"] available to certain trustees, directors, officers and key employees of the Fund and designated affiliates of the Fund. The units from the Incentive Plan are issued at market price with the related cost recorded as compensation expense.

Unit-based Compensation

The Fund established an employee unit option plan [the "Plan"] for trustees, directors, officers, employees, and consultants who otherwise meet the definition of an employee of the Fund. The Fund accounts for the options using the fair value method, whereby the fair value of options is determined on the date at which fair value can initially be determined. The fair value is then recorded as compensation expense on a straight-line basis, over the period that the options vest, with a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded to unitholders' capital.

Foreign Currency Translation

The subsidiaries in the U.S. have been accounted for as integrated foreign operations and have been translated using the temporal method.

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rates for the fiscal period. Exchange gains or losses arising on translation are included in the consolidated statements of earnings and comprehensive income.

Changes in Accounting Policies

Effective January 1, 2007 the Fund adopted the new CICA Handbook accounting requirements for Section 1506 "Accounting Changes"; Section 1530 "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments – Recognition and Measurement"; Section 3861 "Financial Instruments – Disclosure and Presentation"; and Section 3865 "Hedges". In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

Accounting Changes

This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this standard did not have a material impact on the consolidated financial statements of the Fund.

Financial Instruments

Financial instruments are reviewed to determine whether they should be categorized as held for trading, available for sale, held to maturity, loans and receivables or other. Those financial instruments categorized as held for trading or available for sale would be subsequently measured at their fair value at each reporting period. Subsequent measurement of gains or losses for held for trading financial instruments would be recognized in net earnings (loss) while those categorized as available for sale would be recognized in comprehensive income (loss). Those financial instruments categorized as held to maturity, loans and receivables or other would be initially recorded at amortized cost and subsequently measured using the effective interest rate method. As new financial instruments are acquired an evaluation of management's intent and the nature of the item is performed to determine the correct financial instrument categorization and subsequent measurement of any gains or losses.

Comprehensive Income

The Fund's financial statements include a consolidated statement of earnings and comprehensive income and retained earnings which consists of earnings.

Future Accounting Changes

Section 1535 "Capital Disclosures"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Fund's objectives, policies and processes for managing capital. This new section is effective for the Fund beginning January 1, 2008. The Fund does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

Section 3031 "Inventories"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008, the new CICA Handbook Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This new section is effective for the Fund beginning January 1, 2008. The Fund does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

Section 3862 "Financial Instruments – Disclosures" and Section 3863 – "Financial Instruments – Presentation"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Sections 3862 and 3863 will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for the Fund beginning January 1, 2008. The Fund does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

International Financial Reporting Standards ["IFRS"]

In 2006 the Accounting Standards Board ["AcSB"] published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transition period with adoption required effective January 1, 2011. While the Fund has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

3. ACQUISITIONS

[a] Benko Sewer Service

On April 1, 2007 the Fund acquired all of the operating assets and business of Benko Sewer Service for cash consideration. Benko Sewer Service is an Ontario-based hydrovac excavation and sewer maintenance service provider.

The purchase price was allocated as follows:

	$
Property, plant and equipment	1,500,000
Intangible assets	980,000
Goodwill	1,621,000
	4,101,000

[b] Service Rights Acquired

During the year the Fund acquired the service rights and operating assets from four of its Canadian agents for cash consideration.

The purchase price was allocated as follows:

	$
Non-cash working capital	158,180
Property, plant and equipment	2,536,500
Intangible assets (service rights)	2,603,175
	5,297,855

4. PROPERTY, PLANT AND EQUIPMENT

	2007		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	1,339,037	–	1,339,037
Land improvements	366,643	366,643	–
Buildings	5,232,366	1,797,610	3,434,756
Equipment under construction	1,308,831	–	1,308,831
Shoring equipment	2,350,429	1,243,723	1,106,706
Small tools	39,264	39,085	179
Shop and office equipment	1,430,696	1,171,453	259,243
Trucks and trailers	110,295,641	46,143,980	64,151,661
Leasehold improvements	19,676	15,857	3,819
Computers	280,465	211,877	68,588
	122,663,048	50,990,228	71,672,820

	2006		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	919,037	–	919,037
Land improvements	366,643	334,212	32,431
Buildings	3,436,362	1,581,067	1,855,295
Equipment under construction	5,103,899	–	5,103,899
Shoring equipment	2,168,293	1,111,605	1,056,688
Small tools	39,264	38,788	476
Shop and office equipment	1,414,065	1,049,311	364,754
Trucks and trailers	91,392,059	38,422,370	52,969,689
Leasehold improvements	19,676	14,929	4,747
Computers	239,776	178,969	60,807
	105,099,074	42,731,251	62,367,823

5. INTANGIBLE ASSETS

	Net Book Value December 31, 2006 $	Additions $	Amortization $	Net Book Value December 31, 2007 $
Service rights	1,551,336	2,603,175	–	4,154,511
Customer relationships	–	810,000	121,500	688,500
Trade name	–	80,000	12,000	68,000
Non-compete agreement	–	90,000	13,499	76,501
	1,551,336	3,583,175	146,999	4,987,512

6. LONG-TERM DEBT

	2007 $	2006 $
Extendable revolving credit facility	**23,706,641**	7,618,911
Commercial mortgage on land and building, repayable in monthly principal payments of $9,064 plus interest until February 2016, bearing interest at bank prime plus 0.75% [2007 – 6.75%; 2006 – 6.75%]	**897,369**	1,006,141
Commercial mortgage on land and building, repayable in monthly principal payments of $9,167 plus interest until December 2022, bearing interest at bank prime plus 0.75% [2007 – 6.75%]	**1,650,000**	–
	26,254,010	8,625,052
Current portion	**218,768**	108,768
	26,035,242	8,516,284

The Fund has established a $30,000,000 extendable revolving credit facility. The purpose of the credit facility is to finance the Fund's capital expenditure program and for general corporate purposes. The credit facility bears interest, at the Fund's option, at either the bank's prime rate [2007 – 6.00%] or bankers' acceptance rate plus 1.00% [2007 – 5.82%]. An additional stand-by fee calculated at an annual rate of 0.20% per annum is also required on the unused portion of the credit facility.

The credit facility has no required principal repayment. The credit facility expires on June 30, 2008 renewable at the Fund's option for an additional 364 day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid.

The commercial mortgages and the extendable revolving credit facility are collateralized by a general security interest over the Fund's assets, property and undertaking, present and future.

Under the terms of the credit facilities, the Fund must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2007, and as at December 31, 2007, the Fund was in compliance with all of these covenants.

As at December 31, 2007 the Fund has issued letters of credit in the amount of approximately $360,000 [2006 – $386,000]. The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

Principal repayments on the above loans in each of the next five years are as follows [this assumes the extendable revolving credit facility is not renewed on June 30, 2008]:

	$
2008	218,768
2009	23,925,409
2010	218,768
2011	218,768
2012	218,768
Thereafter	1,453,529
	26,254,010

7. UNITHOLDERS' EQUITY

[a] Unitholders' Capital

Authorized

Unlimited number of voting Fund units

Issued and outstanding:	Units	Amount $
Units outstanding as at December 31, 2005	10,738,820	43,254,606
Units issued under the Incentive Plan	13,910	233,590
Rights exercised	5,888	59
Units outstanding as at December 31, 2006	10,758,618	43,488,255
Units issued under the Incentive Plan	3,050	50,000
Units outstanding as at December 31, 2007	10,761,668	43,538,255

[b] Unit Option Plan

Under the unit option plan, trustees, directors, officers, employees and consultants of the Fund are eligible to receive fund unit options to acquire fund units, with terms not to exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the units traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the unit option plan, vesting periods are determined by the trustees of the Fund at the time of the grant. All unit options granted to December 31, 2007 vest equally over a period of three years from the date of grant. The maximum number of fund units to be issued under this plan may not exceed 850,000 fund units.

A summary of the unit option transactions for the years ended December 31, 2007 and 2006 are as follows:

	2007		2006	
	Units	**Weighted average exercise price $**	Units	Weighted average exercise price $
Outstanding at beginning of year	**345,000**	**17.49**	–	–
Granted	**295,000**	**16.41**	360,000	17.49
Exercised	**–**	**–**	–	–
Forfeited	**(135,000)**	**17.50**	(15,000)	17.50
Outstanding at end of year	**505,000**	**16.86**	345,000	17.49

The following provides a summary of the plan as at December 31, 2007:

	Options Outstanding		Options Exercisable	
Outstanding at December 31, 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2007	Weighted average exercise price
160,000	3.4	$17.50	53,333	$17.50
50,000	3.6	$17.45	16,666	$17.45
295,000	4.4	$16.41	–	–
505,000			69,999	

The estimated weighted average fair value of fund unit options granted to date is $4.65 per unit option. The fair value of each unit option grant was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	2007	2006
Dividend yield	**7.40%**	7.20%
Discount for forfeiture	**0**	0
Risk-free interest rate	**3.90%**	4.00%
Expected life of options	**5 years**	4 years
Expected volatility factor of the future expected market price of fund units	**62.00%**	28.00%

The Fund recorded compensation expense, included as part of selling, general and administrative expenses, of $662,400 [2006 – $147,600] with an offsetting increase to contributed surplus in respect of the unit options granted as of December 31, 2007.

[c] Long-term Incentive Plan

The Fund has reserved 200,000 units for issuance under the Incentive Plan. In May 2007, in partial settlement of 2007 trustee fees, the Fund issued 3,050 units pursuant to the Incentive Plan with a total market price of $50,000. As at December 31, 2007 an amount of $ $467,700 is included in accounts payable and accrued liabilities in respect of the incentive bonus for 2007, of which $233,850 will likely be settled by the issuance of units in early 2008. The related compensation costs are included in selling, general and administrative expenses in the accompanying statement of earnings and comprehensive income.

[d] Contributed Surplus

As at December 31, 2007 and 2006 respectively, contributed surplus is comprised of the following:

	2007 $	2006 $
Beginning of year	**973,600**	826,000
Unit-based compensation expense	**662,400**	147,600
Reclassification to unitholders' capital on exercise of options	**–**	–
End of year	**1,636,000**	973,600

8. NET EARNINGS PER UNIT

Basic per unit calculations for the years ended December 31, 2007 and 2006 were based on the weighted average number of units outstanding of 10,760,473 and 10,751,263 respectively. Diluted per unit calculations for the years ended December 31, 2007 and 2006 were based on the weighted average number of units outstanding of 10,760,473 and 10,751,263 respectively.

9. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

	2007 $	2006 $
Earnings before income taxes	**20,782,524**	19,832,368
Statutory income tax rate	**34.12%**	33.21%
Expected income tax provision	**7,090,997**	6,586,329
Add (deduct):		
Income attributable to unit holders	**(4,040,633)**	(3,930,971)
Foreign tax rate differential	**381,674**	382,900
Future tax adjustment on temporary differences in flow-through entities [a]	**1,406,823**	–
Reduction of future tax balances due to substantively enacted income tax rate changes [b]	**(1,052,827)**	(79,683)
Other	**273,645**	377,338
	4,059,679	3,335,913

[a] On June 22, 2007 the Government of Canada enacted a new tax on distributions from SIFT entities. This enactment has triggered the recognition of future income tax assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax balances in the Fund has been reflected as a future income tax expense in 2007.

[b] In 2007, the Government of Canada enacted a Federal tax rate reduction of 1.0 percent in 2008, 1.0 percent in 2009, 1.0 percent in 2010, 2.0 percent in 2011 and 3.5 percent in 2012. The effect of the income tax rate reduction on the future income tax balances in the Fund has been reflected as a reduction of future income tax expense in 2007.

The future income tax assets and liabilities are comprised of the tax effect of the following temporary differences:

	2007 $	2006 $
Future income tax assets:		
Non-capital losses	**1,497,225**	3,424,863
Valuation allowance	**(1,497,225)**	(3,424,863)
	–	–
Future income tax liabilities:		
Property, plant and equipment	**7,611,467**	5,556,994
Intangible assets and goodwill	**78,704**	–
Partnership income	**3,127,499**	3,280,637
Reserve for utilized U.S. non-capital losses	**2,683,266**	1,421,905
	13,500,936	10,259,536
Net future income taxes	**13,500,936**	10,259,536

As at December 31, 2007, one of the Fund's U.S. subsidiaries had net operating losses carried forward of approximately US$3,743,000 which expire as follows:

	$
2021	282,000
2022	3,102,000
2023	359,000
	3,743,000

10. RECONCILIATION OF ACCUMULATED UNITHOLDER CASH DISTRIBUTIONS DECLARED AND PAID

	2007 $	2006 $
Cash distributions declared and paid	**12,428,446**	12,116,819
Cash distributions declared and payable	**1,129,975**	1,129,655
Accumulated cash distributions at beginning of year	**32,768,652**	19,522,178
Accumulated cash distributions at end of year	**46,327,073**	32,768,652

The Fund makes monthly cash distributions to its holders of Fund units. Determination of the amount of cash distributions for any period is at the sole discretion of the trustees and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Fund. Distributions are declared to holders of Fund units of record on the last business day of each month, and paid on the 15th day of the month following [or if such day is not a business day, the next following business day].

11. GEOGRAPHIC INFORMATION

The Fund operates in two geographic/reportable segments providing daylighting services to each of these segments. The following is selected information for the years ended December 31, 2007 and 2006 based on these geographic segments.

	December 31, 2007			December 31, 2006		
	Canada ($)	**U.S. ($)**	**Total ($)**	Canada ($)	U.S. ($)	Total ($)
Revenues	**78,945,490**	**38,742,228**	**117,687,718**	68,940,697	29,430,199	98,370,896
Direct costs	**50,262,694**	**24,632,223**	**74,894,917**	43,013,050	18,974,767	61,987,817
Selling, general and administrative	**6,300,137**	**3,390,811**	**9,690,948**	5,135,903	2,477,717	7,613,620
Amortization	**7,061,336**	**3,366,020**	**10,427,356**	6,267,848	2,368,420	8,636,268
Earnings before income taxes	**14,291,471**	**6,491,053**	**20,782,524**	14,193,183	5,639,185	19,832,368
Property, plant and equipment	**46,469,797**	**25,203,023**	**71,672,820**	44,542,937	17,824,886	62,367,823
Intangible assets	**4,987,512**	**–**	**4,987,512**	1,551,336	–	1,551,336
Goodwill	**1,621,000**	**–**	**1,621,000**	–	–	–
Total assets	**75,070,511**	**35,727,651**	**110,798,162**	63,313,728	26,878,520	90,192,248
Capital expenditures	**5,736,771**	**10,240,803**	**15,977,574**	11,572,715	10,750,952	22,323,667

12. FINANCIAL INSTRUMENTS

[a] Fair Value

The carrying value of cash, accounts receivable, accounts payable, income taxes payable, distributions payable and long-term debt approximate their fair value.

[b] Foreign Currency Risk

The Fund is exposed to foreign currency fluctuations in relation to its U.S. operations; however, management believes this exposure is not material to its overall operations.

[c] Interest Rate Risk

The Fund's debt is at floating rates, and as a result, the Fund is exposed to changes in interest rates. The Fund's earnings and the required cash flows to service the debt will fluctuate as a result of changes in interest rates.

[d] Credit Risk

The Fund is exposed to normal credit risks of its customers that exist within the petroleum and utility industries.

13. COMMITMENTS AND CONTINGENCIES

[a] Legal Disputes

The Fund is not involved in any legal disputes that would generate a material impact to the financial results of the Fund.

[b] Operating Leases

The Fund has entered into operating leases for shop and office premises with future minimum lease payments for the next five years as follows:

	$
2008	374,000
2009	279,000
2010	112,000
2011	70,000
2012	27,000

[c] Purchase Commitments

At December 31, 2007 the Fund has commitments to purchase approximately $4,650,000 worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

14. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Fund was charged $218,714 [2006 – $240,401] for professional fees by a partnership in which a director of the Fund is a partner. These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

16. SUBSEQUENT EVENT

On March 11, 2008 the Fund entered into a purchase contract to acquire certain land and buildings in Canada for an amount of $4,300,000. The amount is to be paid in cash and subject to certain conditions being met by the vendor and the successful completion of due diligence procedures will close on or about May 9, 2008.

Corporate Information

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Partner
Shea Nerland Calnan LLP

Martin Margolis, CA
Chartered Accountant

Glen D. Roane
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J. Richard Couillard
Chief Executive Officer
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Tor Wilson
President & CEO

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Robins Appleby & Taub LLP
Toronto, Ontario

Bose McKinney & Evans LLP
Indianapolis, Indiana

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "BAD.UN"

WEBSITE

www.badgerinc.com

Annual General Meeting

The Annual General Meeting of Badger Income Fund Unitholders will be held on April 24, 2008 at 9:00 a.m. in the 5th Floor Auditorium, 715-5th Avenue S.W., Calgary, Alberta. All unitholders are invited to attend. Those unable to attend are encouraged to sign and return the form of proxy as soon as possible.

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